Discussion

Ross Rubenstein

The paper "Alternative Education Finance Strategies" by Thomas Nechyba (2006) examines issues often ignored in shaping and analyzing school finance policy—namely, the effects of behavioral responses to intergovernmental grants. To the extent that attention is paid to these behavioral responses, it is often limited to *school district* responses—that is, the ways in which school districts might alter taxing and spending policies in response to changes in income or prices brought about by changes in state funding formulas. The analyses in this paper, though, do not assume that policies operate in a vacuum or that district characteristics are static. Instead, the paper incorporates simulations of the resulting behavioral responses by families and the potential effects of these responses on school quality, segregation, and spending.

This paper makes a strong theoretical case for adopting a family-based funding system, and I believe that recent policy initiatives may inevitably move us in that direction in the future. For example, around the country we have seen bitter disputes over the amount of funding charter schools should receive for each student enrolled (see Vanourek, 2005, and Loh, 2005) because the systems currently in place are simply not designed to fund individual students. With direct aid to parents, of course, these funding mechanisms would be quite simple. The simulations in the paper also raise a number of important policy issues and questions that would need to be addressed to develop an effective family-based funding system.

WITHIN-DISTRICT DISPARITIES

Much of the attention in policy and litigation surrounding school finance has focused on school districts—specifically, to ensure adequate educational resources in all districts or equitable resources across districts. The implicit assumption in district-based averages is that all schools within the district receive the district's average level of resources. Evidence accumulated in recent years, though, has shown that wide disparities in student characteristics, teacher characteristics, and resources exist at the school level, and these disparities may be as large as or even larger than those across districts. (See, for example, Stiefel, Rubenstein, and Schwartz, 2004, and Roza and Hill, 2004.) Moving from the current "quasi-public" system to one in which parents have more complete choice of schools could, in fact, reduce these disparities, but the effects are not entirely clear (and the simulations are not designed to model them). As the simulations show, a market-based system in which parents receive vouchers reduces disparities across wealthier and poorer districts as higher-income families move into poorer areas. An important supplement to this analysis would be to examine disparities in school quality within, as well as across, districts.

Although the sorting across districts may be largely related to the sorting of families and tax bases, sorting within districts may be more complex. An important assumption in such an analysis is how to model teacher sorting. Under a purely private system it may be safe to assume that teachers are subject to the same market forces as other profes-

Ross Rubenstein is an associate professor of public administration at the Maxwell School, Syracuse University.

Federal Reserve Bank of St. Louis *Regional Economic Development*, 2006, *2*(1), pp. 28-30.
© 2006, The Federal Reserve Bank of St. Louis. Articles may be reprinted, reproduced, published, distributed, displayed, and transmitted in their entirety if copyright notice, author name(s), and full citation are included. Abstracts, synopses, and other derivative works may be made only with prior written permission of the Federal Reserve Bank of St. Louis.

sions, with schools bidding for the services of teachers who would best match the school, within the school's budget constraint. If we assume more equalized spending across schools, this would require schools to make trade-offs between teacher quality and other school inputs, such as class size (assuming that higher-quality teachers receive higher salaries, on average). As Nechyba points out in the paper, public school teacher assignment is very different from the scenario just described. Instead, we typically find the most experienced and educated teachers sorting not only into the districts with the most advantaged students, but also into the schools with the most advantaged students within those districts. Seniority transfer rights and single salary schedules provide no incentives for teachers to teach in schools with greater needs. It is not clear whether school finance reform that doesn't address these intradistrict resource allocation mechanisms can truly equalize educational opportunities within school districts. This may not be a concern in small districts, but in large urban areas with many schools, for example St. Louis and its almost 100 schools, some level of equalization could occur between St. Louis and its suburbs but have relatively little effect on the poorest schools within St. Louis.

LESSONS FROM HIGHER EDUCATION

It is not uncommon for ideas that might be considered radical and politically untenable in K-12 education to be standard operating procedure in higher education. The idea of vouchers for elementary and secondary school students, with much more fluid competition among public and private providers, is an example of such as idea. Though not referred to as "vouchers," the federal and state governments provide an array of grants, scholarships, tax credits, and subsidized loans that follow students to any institution of higher learning, public or private, at which he or she chooses to enroll. While there are critical differences between higher education and elementary/secondary education, there may also be lessons to learn in the design of a K-12 state aid system targeted to parents.

First, depending on the structure of the system, we may not see the demise of public schools or even a dramatic reduction in their share of the market. Under our current system, approximately 10 percent of elementary and secondary school students are enrolled in private schools, whereas in higher education approximately 23 percent are enrolled in private institutions (National Center for Education Statistics, 2005). The effects of family-based aid, though, would likely depend on whether public schools continue to receive direct state or local subsidies that allow them to charge prices below the actual cost of providing educational services. Second, higher education is extremely stratified: An average of only 3 percent of students at the nation's most selective institutions come from the bottom income quartile; 74 percent of students at the most selective institutions come from the highest quartile (Carnevale and Rose, 2004). This stratification is evident even at many elite public institutions, despite their relatively low net prices. The causes of this inequality are complex, of course, but an important contributing factor is admission policies at elite schools that heavily weight standardized test scores (such as the SAT) along with other nonacademic factors, such as legacies and athletic ability (Bowen, Kurzweil, and Tobin, 2005). This suggests that if we hope to reduce segregation and stratification in elementary and secondary schools, a purely free market system that allows schools to choose the students they enroll, "cream skimming," as the paper describes, may do little to achieve this goal. At the same time, if a family-based funding system were successful at reducing inequalities in elementary and secondary education, it could also be a powerful force for reducing stratification in higher education as well.

THE DEVIL IS IN THE DETAILS

Although this statement is true to some extent for any public policy, the devil may be in the details when attempting to design a family-based aid system that maximizes benefits without creating unintended negative consequences. As the paper recognizes, determining which students or families should be targeted and how much funding such

students should receive presents some of the most critical challenges in the design of such a system.

A simple "lump sum" grant of equal amount to all families is likely to exacerbate stratification because schools would face a strong disincentive to enroll the most costly-to-educate students. Grants of sufficient size for students with special needs could, though, lead to greater opportunities for such students as school entrepreneurs compete to offer high-quality specialized programs for such students. This raises two potential problems. First, such a system might inevitably lead to more isolation of students with special needs, a situation many advocates would consider unacceptable regardless of the quality of the programs. Second, how do we determine the appropriate grant level? Though a number of methods have been proposed, no broadly accepted methodology exists to determine the cost of educating various types of students (see Duncombe and Yinger, 2005, for a discussion of these methods). Moreover, we typically focus on the average costs of such students, but have little understanding of the marginal costs of educating the first student with a learning disability, for example, as compared with the twentieth. To unleash a robust and competitive market, the grants would need to be sufficiently high to bring entrepreneurs into the market willing to serve all students. At the same time, we can ill-afford to offer excessively high grants simply to guarantee that supply of schools.

In closing, I want to stress that these comments are not meant to suggest flaws in the logic or careful analysis presented in the paper, but simply to point out some of the other critical issues that these analyses raise. Ultimately, I am afraid I end with the stereotypical academic's plea: the call for more research to help us better understand the important ramifications that these policy decisions have on children's opportunities.

REFERENCES

Carnevale, Anthony P. and Rose, Stephen J. "Socioeconomic Status, Race/Ethnicity, and Selective College Admissions," in Richard D. Kahlenberg, ed., *America's Untapped Resource: Low-Income Students in Higher Education*. New York: Century Foundation Press, 2004.

Bowen, William G.; Kurzweil, Martin and Tobin, Eugene. *Equity and Excellence in American Higher Education*. Charlottesville: University of Virginia Press, 2005.

Duncombe, William and Yinger, John. "How Much More Does a Disadvantaged Student Cost?" *Economics of Education Review*, October 2005, *24*(5), pp. 513-32.

Loh, Laura. "City Schools To Challenge State Decision on Charters; Equal Spending for All Students Places System Finances at Risk, Officials Say; Relief To Be Sought from Courts, Federal Agency." *Baltimore Sun*, May 11, 2005, p. 1B.

National Center for Education Statistics. *Digest of Education Statistics, 2004*. Washington, DC: Institute for Education Sciences, U.S. Department of Education, 2005; Tables 36, 52, 178.

Nechyba, Thomas J. "Alternative Education Finance Strategies." Federal Reserve Bank of St. Louis *Regional Economic Development*, 2006, *2*(1), pp. 7-27.

Roza, Marguerite and Hill, Paul T. "How Within-District Spending Inequities Help Some Schools Fail," in Diane Ravitch, ed., *Brookings Papers on Education Policy*, *2004* Washington, DC: Brookings Institution, 2004, pp. 201-27.

Stiefel, Leanna; Rubenstein, Ross and Schwartz, Amy Ellen. "From Districts to Schools: The Distribution of Resources Across Schools in Big City School Districts," in David H. Monk and James Wyckoff, eds., *Proceedings from the Symposium on Education Finance and Organizational Structure in NYS Schools*. Albany, NY: Education Finance Research Consortium, 2004.

Vanourek, Greg. *State of the Charter Movement 2005*. Washington, DC: Charter School Leadership Council, 2005.